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Master's Thesis of Political Science and International Relations

**Different Kinds of Friends**  
**- The Effects of Ally Behaviors in**  
**War Coalitions on Bilateral Trade**  
**Relationships -**

협력의 대가:  
전쟁연합에서 동맹국들의 차별적 기여도가  
양자무역 관계에 미치는 영향

**August 2019**

**Graduate School of Political Science and**  
**International Relations**  
**Seoul National University**  
**International Relations Major**

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# **Different Kinds of Friends**

## **- The Effects of Ally Behaviors in War Coalitions on Bilateral Trade Relationships -**

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International Relations

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# Abstract

This dissertation aims to explore how the different commitments of allies in war coalitions affect bilateral trade relationships. According to the framework of security externality, allies are assumed to be reliable partners committed to the common interest, as opposed to non-allies. However, allies may not be reliable partners. Alliances differ in their contributions; some are more cooperative with certain trading partners than others. Therefore, literature thus far on the relationship between alliance and trade has been limited because they uniformly categorize allies with little regard to their behavioral differences. In order to analyze the effects of alliances on commerce, behavioral patterns within the alliance group and their impacts on trade need to be considered as well.

In a bilateral trade relationship among allies, states no longer decide upon trade relations on the basis of the fear that trading partners may increase their military power through the gains from trade. Instead, the state strategically uses trade as a foreign policy tool in order to induce behavioral changes in allies and to evaluate their performances. Therefore, I argue that when a bilateral trade relationship is formed, the state scrutinizes not only the fact that the trading partner is an ally, but also the varying levels of ally commitments as well.

This paper observes the relationship between allies' different behaviors and trade flows by inquiring into the Vietnam War coalition. The United States as a coalition leader promoted participation and contribution by discriminately handing out trade benefits to potential participants. As a result, the behavior of allies in terms of their participation and contribution are most clearly diversified in the case of the Vietnam War. Based on this, I derive the following hypothesis: allies that contribute more to coalitions are more likely to be rewarded with trade benefits by the coalition leader.

To measure trade benefits what the United States offered to its allies that joined in the coalition, this study investigates bilateral trade flows in textile and apparels. I conduct both statistical analysis using the system Generalized Method of Moments (GMM) and case study comparing South Korea and Taiwan in order to test the hypothesis. The results of this study show that allies' different behaviors in the Vietnam War coalition have significant and large effect on textile trade flows. The finding suggests that coalition leaders discriminate allies' performances by giving more trade benefits to countries who contribute the most to the war coalition.

**Keyword :** War Coalition, Alliance Behavior, Bilateral Trade Relationship, Textile Trade Negotiation, Dynamic Panel Data Analysis, System Generalized Method of Moments (GMM)

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## **Chapter 1**

# **Introduction**

### **1.1 Rewards of Cooperation**

A number of studies have argued that political-military alliances affect international trade. (Gowa and Mansfield 1993; Dixon and Moon 1993; Gowa 1995; Mansfield et al, 2000; Morrow et al 1998, 652). Allies trade more with one-another than non-allies because the gains from trade can be used to enhance the potential military power of both allies and adversaries. Due to the fear that the adversary might take advantage of trade benefits in order to build up military strength, states raise trade barriers towards adversaries (Mansfield et al 2000, 305). On the contrary, allies can increase the military capability of the entire alliance group through an active bilateral economic exchange (Long and Leeds 2006, 434). Trade produces positive security externalities between allies and negative security externalities between enemies (Gowa and Mansfield 1993, 411). Therefore, when states build a bilateral trade relationship, they most importantly distinguish between friends and foes, selectively developing trade relationships only with friends. This suggests that one of the most important criteria in forming a trade relationship is to define whether the

trading partner is a friend or enemy.

However, another factor that can influence international trade as much as the criteria between friend and foe is the following question: '*what kind of friend are you?*' Support is likely to be expected once alliances are formed (Morrow 1994, 271), but allies are not always faithful to their duties as a friend (Leeds et al 2000; Fortna 2003, 342; Leeds 2003, 809; Gartzke and Gleditsch 2004). Even during the Cold War where the distinction between friend and enemy was most clear, the member states of each camp did not behave as expected. Although President Reagan famously said, "Here is my strategy on the Cold War: we win, they lose," those states belonging to 'we' did not always fight and struggle in unity to preserve security and common defense. It is possible that allies might be unpredictable partners (Gartzke and Gleditsch 2004, 777). In spite of having developed strong trade relationships upon the perception of others as 'friends', they may be of little to no assistance in times of need, and others that were considered to be less closer 'friends' can turn out to be strong supporters that provide actual assistance.

Trade flows are primarily influenced by the ally- non-ally distinction, but when paying attention only to trade relations with allies, the symbolic meaning of the alliance is no longer important. This is because states do not decide upon trade relations on the basis of the fear that their trading partners would pose a great military threat using gains from trade. Instead, states

differentiate relations with ally states based on how cooperative a friend these allies were to them. If “trade indeed follows the flag” (Pollins 1989a, 546), then how does trade flow within the same flag? In order to fully understand the effects of alliances on international trade, it is important to examine how allies build and manage their own trade relations. Thus, this paper seeks to understand international trade flows within the alliance group with a focus on intra-alliance behaviors.

## **1.2. Research Question and Arguments**

How do different behaviors of states within an alliance group affect bilateral trade relationships? I argue that when a bilateral trade relationship is formed, the state scrutinizes not only the fact that the trading partner is an ally, but also the behavior of the allies as well. Trade with allies still produces positive security externalities associated with each other’s rising wealth and military power compared to trade with enemies. However, this does not imply that all bilateral trade relationships are strong because it is difficult to assume that allies will always be cooperative and strongly committed to other ally partners. Amongst allied states, the trade relationship is stronger and deeper in proportion to the degree of political or military compliance. In an intra-alliance bilateral trade relationship, states put a strong emphasis on how cooperative their allies are (Gartzke et al 2001; Flores-Macias and Kreps 2013;

Carnegie 2014; Davis et al 2017, 4).

More specifically, this study focuses on states' roles as active players that use trade as a foreign policy tool (Davis et al 2017, 2). If there is a clear distinction between friend and enemy, trade patterns are almost automatically determined by traditional security concerns, the desire to reward friends and punish adversaries (Pollins 1989a, 470). However, without the dichotomous distinctions of friend and enemy, trade can be an instrument of foreign policy to reward cooperative friends and punish recalcitrant ones. Rather than let political and security tensions decide a state's foreign trade policy, states actively employ trade policies to induce behavioral changes in allies and to evaluate their performances. This is a feature of economic statecraft in that the state pursues foreign policy goals using its economic power and influence in an asymmetrical trade relationship (Hirschman [1945] 1980; Baldwin 1985; Lake 2009). This paper examines how states discriminate allies' performances using their economically advantageous bargaining positions and how these evaluations are reflected in bilateral trade relationships.

In war coalitions where two or more states jointly perform military actions, a coalition leader seeks participation and contributions from its allies. However, war coalitions require allies to take greater risks and higher costs than most other events that require cooperation from allies such as voting alignment in the United Nations General Assembly (UNGA). As war coalition

participation demands a high-level commitment from allies, behavioral patterns of allies regarding the war coalition are very much diversified. States that were initially expected to be cooperative towards the coalition may end up not participating, and those that were not expected to cooperate might participate in the coalition. Moreover, those countries that are expected to contribute more resources might wound up adhering to the lowest standards, and states that were expected to contribute proportionally to their capabilities may end up exceeding expectations by making the fullest commitments. The coalition leader strategically uses trade as a foreign policy tool in order to differentiate varying degrees of allies' behaviors in war coalitions. I argue that varying degrees of participation and levels of contribution by the allies in the war coalition lead to trade discrimination because only the supporters are rewarded with great trade benefits by the coalition leader.

### **1.3 Research Methods**

I observe the relationship between allies' different behaviors and trade flows by inquiring into the Vietnam War coalition. The Vietnam War is a case in which the United States sought significant assistance from its allies as the coalition leader. However, the military compliance of U.S. allies varies in participation and contribution. I utilize both statistical analysis and a comparative case study to empirically examine how the United States provided differential trade

benefits to its allies based on their different levels of contribution to the Vietnam War coalition.

First, I systematically find out whether allies that contributed more to coalitions were rewarded with higher textile trade volumes by the United States from 1962 to 1975. I divide the difference in behavior of the U.S.'s allies and like-minded states into three groups: 'no participation', 'low contribution' and 'high contribution'. To measure trade benefits, this study focus on the textile trade flows, as the textile and apparel industry was one of the leading export products for both European and Asian countries in the 1960s and the 1970s. I apply the system Generalized Method of Moments (GMM) estimation to capture dynamic effects of trade flows.

For an in-depth understanding of the relationship between alliance behaviors and international trade flow, this paper focuses on two important cases as points of analysis: South Korea and Taiwan. South Korea and Taiwan were common in their levels of economic development, national capabilities, the relationship with the United States during the Cold War, and the importance of the textile industry in domestic economic growth. However, South Korea and Taiwan responded differently to the U.S.'s request to join the coalition. South Korea participated to the coalition with the highest level of contributions by sending the largest foreign troops after the United States. On the other hand, Taiwan supported the coalition forces by providing remote air bases that

transported soldiers during wartime instead of deploying their own combat soldiers into the Vietnam War. I analyze the foreign policy making process of the United States and compares trade negotiations with South Korea and that of Taiwan regarding larger quotas for textile and apparel products.

## **1.4 Outline**

The paper proceeds as follows. Chapter 2 provides an overview of the relevant literature. It clarifies theoretical frameworks to explain how military alliances affect international trade. This chapter can be divided into three parts. First, I define the war coalition and explain why the burden sharing of war coalitions is mainly distributed to the coalition leader. Next, I specify different behavioral patterns of ally states in war coalitions by their varying levels of participation and contribution. While earlier studies on security externality examine the differences in the trade relationship between allies and non-allies, I expand the spectrum of state behaviors to find out how behavioral patterns within the alliance group impact on bilateral trade relationship. Lastly, chapter 2 explains how state strategically uses trade as a foreign policy to differentiate varying behaviors of the alliance.

Chapter 3 introduces the research design of this paper. I specifically focus on the case of the Vietnam War as the war coalition during the Vietnam War exhibits identifiable and distinct levels of participation and contribution of

allies when compared to other U.S.-led war coalitions. Also, I measure trade benefits using bilateral trade flows in textile and apparels. Textile and apparel products were one of the main export products for the U.S. alliances during the Cold War, so I argue that the United States rewarded its allies proportionately according to the degree of cooperation in war.

Chapter 4 tests the hypothesis using statistical analysis. I present data and variables of this study and provide a description of textile trade flows over time from 1962 to 1975 by the degree of allies' participation and contribution. I then explain the system Generalized Method of Moments (GMM). This study includes lagged dependent variables as the current trade flows are determined by its previous level. I show that different behavioral responses to the Vietnam War by the U.S.'s allies, as in the varying degrees of participation and levels of contribution, led to proportionately different changes in textile trade volume.

Chapter 5 tests the hypothesis using a comparative case study between South Korea and Taiwan. I first examine similarities of these states in three parts: national capabilities, the military relationship with the United States, and the importance of the textile industry in their economic growth. Next, I present how South Korea and Taiwan were different in their contributions to the Vietnam War coalition. By conducting archival research, I focus on whether there were solid textile negotiations between the United States and these two countries about the side-payment, thereby granting great favors to South Korea



who showed the highest levels of contribution.

In conclusion, I summarized the arguments and the main findings forwarded in this paper. I highlight that the United States discriminates allies' performances by giving more trade benefits to countries who contribute the most. I also suggest the implications and future directions of this study.

## **Chapter 2**

# **Theoretical Framework**

### **2.1 Collective Action Problem in War Coalitions**

A war coalition is a form of collective military action where two or more states jointly make a threat to use force against their common enemy (Weitsman 2003, 82; Wolford 2015, 12-3). Alliance studies have been the theoretical foundation for war coalitions, as the two concepts of coalitions and alliances share a fundamental characteristic. As a form of military cooperation, both alliances and war coalitions advance the mutual interest of states in the deterrence of a common threat through the aggregation of capabilities (Morrow 1991, 907; Snyder 2007, 59). However, unlike a formal military alliance, which binds committed countries through a legal agreement and treaty, a war coalition comprises 'like-minded states' to conduct joint military operations, involving both allies and non-allied partners (Tago 2006, 180). Also, a formal alliance persists and obligates partners' commitments to their allies as long as the threat remains (Morrow 1994), but a war coalition is a rather temporary event which mobilizes military cooperation of states in response to an immediate crisis situation. Thus, the coalition begins to disintegrate as the war ends.

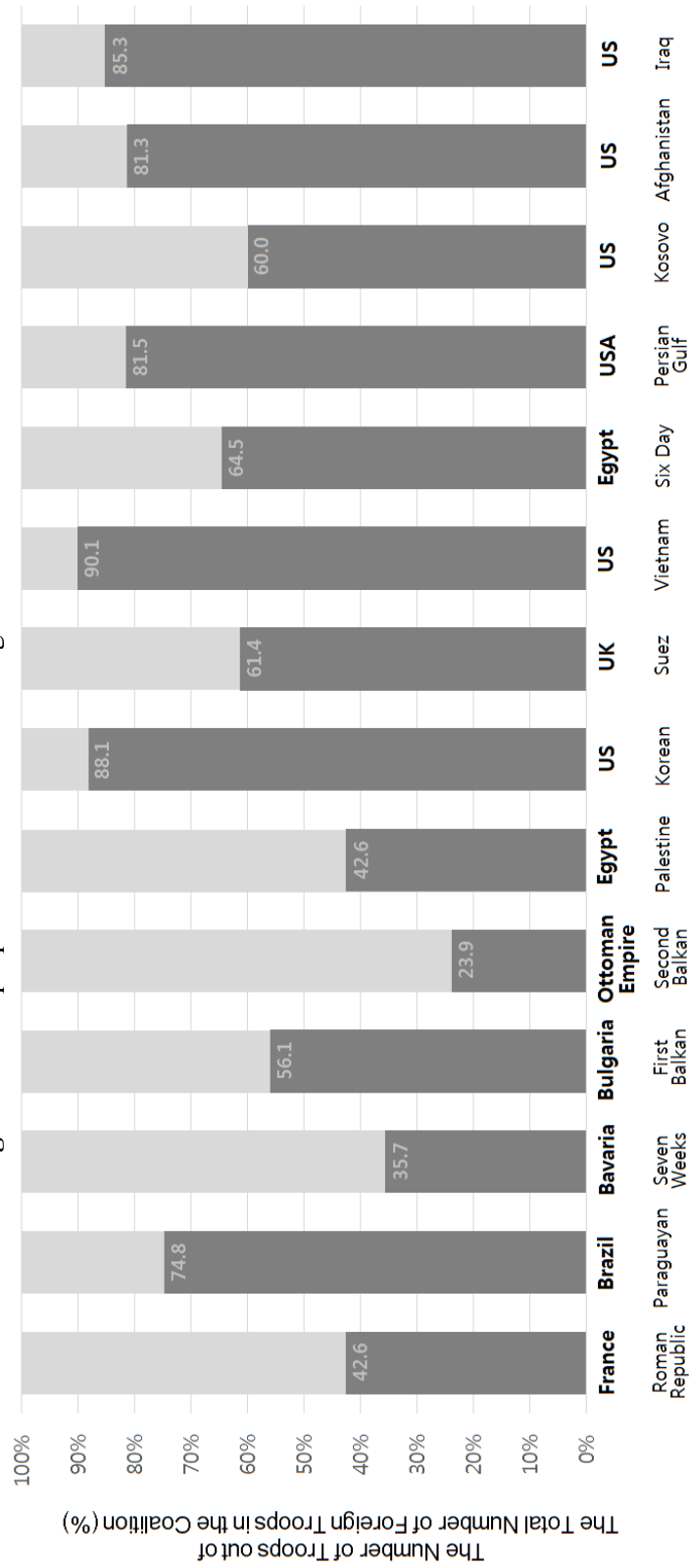
In the war coalition, the common burden and cost come to be shared in a disproportionate way among participants. Burden sharing of war coalitions is mainly distributed to the larger and stronger states while relatively smaller states barely share the cost of collective defense. Figure 1 shows unequal burden sharing tendencies in 14 interstate wars where multi-national coalitions were present. I measured the sharing of burdens using the number of troops sent from each state out of the total number of foreign troops in the coalition and their national material capabilities from the NMC dataset. The dark color of each bar graph indicates the amount of burden sharing that the strongest state bears and the rest of the graph represents the shares of remaining coalition partners. In twelve cases, the strongest state of the coalition shoulders more than half of the burden. Especially, wars involving the United States, such as the Korean War (1950-1953), the Vietnam War (1955-1975), the Gulf War (1998-1999), the Afghanistan War (2001-2004), and the Iraq War (2003-2011), show that US soldiers comprised 80% of all foreign troops.<sup>1</sup> This suggests that the burden of the coalition depends on the relative power positions of states (Tago 2006, 180).

This disproportionate share of the burden is mostly due to the respons-

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<sup>1</sup> The reason why the burden sharing of the US recorded a low of 60% during the Kosovo War is because NATO, which consists of a number of European states, was the main participant in the war. Thus, a several European states with high stakes in the Kosovo War actively participated aside from the US.

**Figure 1.** Disproportionate Burden Sharing in War Coalitions



*Notes:* The Front coalition dataset calculated by Weisiger (2016) and the NMC (National Material Capability of COW) was used in order to identify burden sharing in war coalitions. The Front coalition dataset records the number of troops that were deployed to the frontline by war coalition participatory states from 1816 to 2003 by country and day. Weisiger put together the data with the original purpose of recording the movement of troops at the frontline on a daily basis. However, this study requires data on how many troops were deployed by each state during an ongoing war. As such, this study utilized the numerical value of the point at which the largest numbers of troops were deployed during each year. In order to measure burden sharing of states within war coalitions, this largest annual deployment of troops was multiplied by the state's military expenditure in the same respective period.

bility of the strongest states (Oneal 1990, 427; Sandler and Hartley 2001; 875). As coalition leaders, they normally have a critical interest in the given war and possess the capability to contribute a greater proportion of their resources. The benefits of successful deterrence attributable to coalition leaders are public goods in that certain non-participatory states also automatically benefit from the deterrence as well (Olson and Zeckhauser 1966, 267). Thus, states other than the coalition leader and the countries directly involved in the war have the incentive to free ride by evading responsibilities for achieving the collective objective (ibid, 266). Alliance behavior regarding the war coalition is fundamentally a collective action problem (Olson 1965). In order to partially reduce the costs and to politically justify its decision to wage war, the coalition leader prefers high levels of participation and contribution from allies and other like-minded states.

## **2.2 Allies' Contribution in War Coalitions**

In building a war coalition, a coalition leader tries to attract potential partners with promises of economic incentives which come in a variety of forms. States entering into a coalition seek 'side-payments' such as territorial concessions, economic assistance, or political support to build their own legitimacy (Russett 1971, 263). Newham (2008) examines economic linkage in the formation of the Iraq War coalition, the "Coalition of the Willing". The Iraq War was one of the

US-led multi-national forces in which more than 60 countries joined. He argues that economic inducement played an important role in building the coalition given that most of the participants were small, poor and without geopolitical stakes in the war. As these countries' economies were heavily dependent on the United States, the Bush administration found that using economic instruments to influence them was an efficient means to building a coalition. Newham reveals that participatory governments that provided political and military support in the Iraq War coalition were offered economic and military aids, trade benefits, investment incentives, and preferential bidding on reconstruction contracts. Wolford (2015) explores the possibility of using economic incentives as a foreign policy tool to encourage and secure the cooperation of partners who do not share its interests with the coalition leader, showing that compensation has a critical effect on coalition formation and its durability.

Even if there are economic incentives for joining a coalition, it is difficult to ensure participatory states' full commitment. Previous studies have raised the point that allies may not be reliable partners (Leeds et al. 2000; Leeds 2003; Gartzke and Gleditsch 2004). In forming a coalition, the coalition leader pre-examines which countries will or will not participate. However, those expected by the coalition leader to participate might decide not to as well. Furthermore, there is no guarantee of complete dedication by potential partners. Participants are indistinguishable in the sense that they all are fighting on the

same side in the war. But they are certainly distinguishable in their differing levels of commitment. Some decide to send their troops into war inspite of possible exposure to casualties and risk, while other choose to avoid direct participation in the war. For instance, some member-states of the coalition provide military supplies such as weapons and bases or financial support.

Or, as in the case of the Iraq War coalition where the United States was willing to make the coalition appear as large as possible, states with minimum contributions in the form of verbal and political support were regarded as members of the 'Coalition of the Willing' (Newham 2008, 185). Likewise, states differ in their contributions; some are more cooperative with the coalition leader than others, and an individual state's behavior varies according to different situations. As the war continues, inconsistency in states' behaviors tends to increase. Behaviors of potential partners vary not only in participation, but also with the level of contribution.

There is a huge difference in participation and the levels of contribution among potential partners, so treating their different levels of commitment without further discrimination may lead to a partial understanding of the role of the economic factor in shaping and sustaining the coalition. Then, is it possible to observe coalition leaders distributing differential economic incentives to participatory states according to their varying levels of contribution, just as we can observe likewise discrimination towards

participants and non-participants? While earlier research has explored the cost of cooperation by looking into the act of participation the military coalition, this study tries to specify different behavioral patterns of states and examine the impact of varying levels of contribution on economic benefits. Among various types of economic incentives, I specifically focus on international trade benefits as the form of compensation.

## **2.3 Military Alliance and International Trade**

Earlier studies have shown that military alliances affect international trade. Active trade exchange provides both trading states with economic wealth (Gowa 1994; Gowa and Mansfield 1993, 2004, 781; Kastner 2007). If one state decides to invest the gains from trade into augmenting its military capability, it can be a substantial threat to other trading partners (Morrow et al. 1998, 652). As a result, trade among enemies creates a negative security externality (Gowa 1995; Long and Leeds, 2006). Trade among allies, on the other hand, produces a positive security externality because military spending by alliances leads to enhanced security for other allies. The fear that adversaries might exploit trade benefits for military uses leads them to foster trade preferably with allies than non-allies. Likewise, “trade can be addressed in the relation-specific context” (Gowa and Mansfield 2004, 782).



According to the framework of security externality, allies are assumed to be reliable partners committed to the common interest, as opposed to non-allies. However, it is difficult to assume that allies will always be cooperative and strongly committed to other ally partners. As such, there is somewhat of a difficulty in uniformly categorizing the varying behaviors of alliances as the previous research has shown. More specifically, state behavior in response to war coalitions can be divided into a two-by-two matrix by alliance and cooperation as shown in Figure 2. However, the literature on security externality examines the differences in trade between allies and non-allies, failing to allow for a comparison between group 2 and group 3: the variations in trade within an alliance based on their behaviors. In order to analyze the effects

**Figure 2.** State Behaviors in War Coalitions

	Non-Cooperation	Cooperation
Non-Alliance	<b>Group 1</b>	Group 4
Alliance	<b>Group 2</b>	<b>Group 3</b>

of alliances on commerce, behavioral patterns *within the alliance group* and their impacts on trade need to be considered as well.

## **2.4 Trade as a Foreign Policy Tool**

What kinds of trade policies can states administer towards their allies? Since the ally - non-ally distinction is not applicable in this framework, the state no longer decides upon trade relations on the basis of the fear that trading partners may increase their military power through the gains from trade. Instead, the state can be depicted as an active player in the sense that it evaluates the behaviors of allies and makes use of rewards and punishments as a means to induce their behavioral changes (Pollins 1989a, 83; Pollins 1989b, 739-41; Lake 2009). Thus, the state strategically uses trade as a foreign policy tool in order to differentiate varying behaviors of the alliance (Davis et al. 2017, 2-7).

The existing research centers on how states administer trade policies as a means to coerce political compliance upon its trading partners. The relatively stronger state in a bilateral trade relationship is likely to have more bargaining power (Holsti 1978, 521; Baldwin 1980, 96; Lake 2009). Thus, this state utilizes trade as a foreign policy tool by rewarding or punishing partners in order to elicit their compliance (Davis et al. 2017, 1). This is a feature of economic statecraft in that larger states in an asymmetric alliance employ economic means in order to achieve foreign policy goals (Hirschman [1945]

1980; Baldwin 1985; Flores-Macías and Kreps 2013). Major powers can exercise carrot and stick strategies by increasing the imported merchandises or by raising trade barriers and placing trading embargoes (Gowa and Mansfield 2004, 778-783). More specifically, states can impose the highest restrictions on trade with target countries using various kinds of negative sanctions such as boycott, tariff increase, quotas, dumping, or blacklist. Or, they can use positive sanctions to affect the behaviors of trading partners by giving subsidies, granting permission to export particular goods or lowering tariffs in general or on particular products (Baldwin 1985, 40-42).

Previous studies have shown that compliance by states that are more dependent on trade relationships results in trade benefits. For example, Davis, Fuchs, and Johnson (2017) show that the political behavior of trading partners significantly influences the bilateral trade relationship especially with China and India where governments can control state-owned companies rather easily. To measure the political behavior of states, they focus on two indicators; negative political events and voting compliance in the United Nations General Assembly (UNGA). In addition, Flores-Macías and Kreps (2013) test whether countries that trade more with China are also more likely to share similar views on foreign policy issues as well. They found that weak states that heavily rely on trade with China also comply with China in voting. Similarly, Kastner (2016, 985) argues that trade dependence on China makes states take an

accommodating stance on crucial issues that China cares most about.

Earlier studies focusing on economic statecraft argue that major states can force compliance of economically smaller states due to asymmetries of market power. This is relevant to specific cases where a stronger state obligates political acquiescence towards smaller states. As for military issues, on the other hand, it can be difficult to enforce the concession of relatively smaller states. Even if some allies do not share the same stance on certain specific foreign policy issues, they can alter their stances on minor issues with relative ease considering the fact that the cost of political support is comparably lower than the gains from trade. However, joining a war coalition can be a costly act for many allies, even for those allies that are most cooperative on foreign policy issues. Since a military contribution to a war coalition is especially demanding for participatory states, a coalition leader tries to offer compensation instead of compulsion in order to persuade potential partners to contribute to collective military efforts and to evaluate their varying levels of commitments in war coalitions.

## **2.5 Summary and Conclusion**

This study aims to explain how different commitments of states in regards to the war coalition affect bilateral trade relationships with the coalition leader. There have been previous studies exploring how states' cooperation in

war coalitions is correlated with economic benefits. The distinguishing point of my study is that I specifically argue that the coalition leader state deals out differential treatments in the form of economic benefits in response to the varying levels of military contribution by participatory ally states. I distinguish state commitments in war coalitions with two different standards; participation and the levels of contribution. Thereby this study argues that the amount of economic benefits distributed by the coalition leader can highly vary depending on the participatory state's level of contribution to the major power because partners' different behavioral patterns lead to differences in compensations.

Moreover, this paper examines how a coalition leader utilizes trade as a foreign policy tool to attract potential participants and reward their contributions to the war coalition. There are various types of economic benefits yet easier studies have largely focused on an aid-for-participation deal between coalition leader and prospective partners (Tago 2008; Newham 2008, 186-188; Henke 2018). In the last six US-led multinational forces, the United States actively provides aid package deals in order to build and maintain the war coalitions. Apparently, foreign aid is one of the most important and frequently used policy instruments for the United States (Sullivan et al 2011, 276) to obtain allies' political compliances in UN voting (Kegley and Hook 1991; Wang 1999; Dreher et al 2008), or their support for counterterrorism policy (Boutton 2014). However, economic and military aid as a side-payment may

not be given for utter aid-for-policy reasons, because its underlying purposes are driven by humanitarian concerns (Lumsdaine 1993, 138; Drury et al 2005; Nielsen 2010). Even when states did not cooperate in the US-led coalition forces, they still received aid for emergency food support, budgetary support, or disease control. In terms of the selfish and selfless approach, facing a poverty-stricken state leads to a selfless policy by the donor state (Heinrich 2013, 424). This implies that aid may not be the best indicator to evaluate the commitments of states in war coalitions. On the other hand, it is relatively easier for a coalition leader to attain foreign policy preferences and achieve strategic policy goals by influencing trade patterns. Therefore, economic incentives in the form of trade benefits enable examining the effects of varying degrees of participation and levels of contribution on compensation discrimination towards potential partners.

Last but not least, while previous studies are generally founded in archival research, I conduct both quantitative analysis and archival research to systematically compare the scale of the trade benefits earned from allies through participation and contribution. This research examines the case of the Vietnam War which exhibits various types and degrees of state participation in order to better understand the relationship between types/levels of participation and economic benefits in war coalitions.

## **Chapter 3**

# **Research Design**

### **3.1 Different Commitments in the Vietnam War Coalition**

This study specifically focuses on the case of the Vietnam War. The Vietnam War was part of the Cold War struggles where liberal democratic camp fought beside the United States in South Vietnam against Communist aggression. In May 1964, President Johnson asked the “Free World” allies to help and support the military defense of South Vietnam. In order to create a unified stand against communism in Southeast Asia, it was important for more nations of the Free World to join “More Flags” program. However, the allies that joined the “Free World Military Forces” were the Republic of (South) Korea, the Philippines, Thailand, Australia, and New Zealand. The size of those foreign troops accounted for 10 percent of the total allied forces. There were two more states, Japan and the Republic of China (Taiwan), which contributed to the defeat of the Communist regime by assisting the coalition forces as a rear base or supplying military materials other than sending their ground troops to South Vietnam. Most of the key allies from the Western Bloc, including all the European countries, declined to join.

Though there are several other U.S.-led war coalitions, the behavior of allies in terms of their participation and contribution are most clearly diversified in the case of the Vietnam War. First, there is a clear separation of the participant and non-participant allies in the case of the Vietnam War. The Korean War and the Vietnam War are similar in that one of the causes of both wars was ideological tension during the Cold War. Whereas 15 states joined in a multi-national war coalition in the case of the Korean War, only five states participated in the Vietnam War. The United States asked of its allies and friendly states to demonstrate their solidarity with South Vietnam through the deployment of military forces and economic assistance,<sup>2</sup> but only a few countries responded to this request. This clear difference in participation during the Vietnam War can lead us to find out the difference in the trade relationship between allies who joined the coalition and others who did not.

Furthermore, the war coalition during the Vietnam War exhibits identifiable and distinct levels of contribution when compared to more recent coalition cases. For instance, about 63 states from the ‘Coalition of the Willing’ were involved in the Iraq War with varying levels of contribution. The Vilnius group, composed of 10 East European countries, proclaimed their support for a US military intervention in Iraq by signing a letter, called “Vilnius Letter”

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<sup>2</sup> The United States particularly expected to have favorable responses from West Germany, Japan, Italy, and the United Kingdom including initial participants. See *Foreign Relations of the United States, 1961–1963, Volume I, Vietnam, 1964*, eds. Ronald D. Landa and Charles S. Sampson (Washington: Government Printing Office, 1992), Document 214



(Newham 2008, 188). The members of the Vilnius group were economically weak so their efforts mostly ended in political support.<sup>3</sup> However, the United States was often willing to acknowledge their verbal support. Likewise, many states supported the coalition through economic assistance and political support aside from the deployment of troops. Most states that indirectly supported the coalition instead of directly deploying troops were small and poor states with limited military capabilities. Thus, it is difficult to discern whether such countries were authentically less “cooperative” to the United States than militarily powerful states that directly participated in the coalition. These countries may not contribute with their own manpower on a basis proportional to population, but their political and economic support was best effort that they could make. Such patterns of indirect supports from small countries can be found in other U.S.-led war coalitions.

However, allies in the Vietnam War coalition are clearly separable into two groups, and there were no countries considered as a member of the coalition by making political or economic efforts. States either directly joined in the coalition operations by sending troops or indirectly contributed to the war by playing the role of a rear base. For these reasons, a clear distinction of state behavior in the Vietnam War enables an examination of the impact of allies’ varying commitments on trade flows.

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<sup>3</sup> Romania and Bulgaria offered small troop, joining as military contingents.

Lastly, the distinction between friend and enemy was most evident during the Cold War, and political and security tension between the Western Bloc and the Eastern Bloc created marked differences in trade as well. During this period, the United States tried to promote intra-alliance trade and impede cross-alliance trade (Gowa 1995, 3). If we can find a significant difference in the amount of trade benefits received among allies even when special emphasis is placed on alliances, this result would best support the argument of this paper.

### **3.2 Textile and Apparel Trade Benefits As Incentive**

Major states can differently respond to allies' performances both by discriminately rewarding and punishing their partners. There are examples that the United States attempts to coerce other countries into supporting its military missions by punishing them. For instance, when Yemen voted against the authorization of the Gulf War in 1991, the United States cut its entire aid budget to Yemen (Anderson et al. 2003, 1). However, requesting the deployment of ally soldiers to a battlefield is a different problem. The United States, as a coalition leader, recognizes that it can be a costly choice for the allies; it is more likely to reward the participants rather than punish the non-contributors. Accordingly, if there is a difference in trade relationship among participants in the Vietnam War, it is likely due to preferential treatment by the United States as a means to reward the ally contributors rather than to punish the non-

contributors. From this perspective, trade benefits are expected to increase according to the degree of contribution of the alliance. Thus, I test the following hypothesis:

***Hypothesis:*** *Allies that contribute more to coalitions are more likely to be rewarded with trade benefits by the coalition leader.*

To measure trade benefits what the United States offered to its allies that joined in the coalition, this study investigates bilateral trade flows in textile and apparels. Textile has been one of the main export products for the U.S. alliances during the Cold War (Baldwin 1984). For Asian states, exporting raw materials were particularly important due to their limited economic infrastructures. Textile trading was also an important issue for the European countries as well.<sup>4</sup> Therefore, the impact of ally's contributions on trade can be effectively assessed by observing trade flows of textile and clothing products during the Vietnam War period. If the United States decided to reward the most cooperative partners with trade benefits, then there would be a more significant increase in textile trade flows among war coalition participants than non-

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<sup>4</sup> In 1970, the United States passed a trade bill which adopted a protectionist measure. The European countries argued that the bill would have had a considerable adverse effect on their economies, specifically pointing out the quotas on textiles. See U.S. Congress. Senate. 1971. Committee on Finance, 1971, Trade politics in the 1970's. A Report by Senate Abraham Ribicoff. Washington D.C.: U.S. Government Printing Office.

participants during the given period.

This paper verifies the hypothesis in two steps. First, statistical analysis tests to find out the difference in trade volume among allies who behave differently. Next, I use in-depth case study analysis by comparing the processes of profit negotiation between South Korea and Taiwan as to figure out whether there were preferential treatments.

## Chapter 4

# Commitments vs. Trade

### 4.1 Data and Variables

#### A. Dependent Variable

For the textile trade flows, I use the World Trade Flows dataset from the National Bureau of Economic Research (NBER) (Feenstra et al. 2005) which records a set of bilateral trade volume by commodities.<sup>5</sup> Since the data is classified by the Standard International Trade Classification (Revision 2), I only select textile products which are categorized under ‘Division 26’.<sup>6</sup> The dependent variable of this study is the states’ share of the U.S. total textile trade volume, calculated by dividing the state’s total textile export volume to the United States by the sum of the U.S. total textile import volume in a year from 1962 to 1975. I focus on the share of trade volume instead of the actual volume alone because the latter may not reflect the effects of an state’s contribution on trade flows. Major textile trading partners are likely to maintain previous trade

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<sup>5</sup> There is the U.S. Import and Export dataset that have been assembled by Feenstra, but the data 1 covers period after 1972. The case of this study required information on trade flows before 1964. Also, there is the data that covers the longer period from 1958 to 1994 for the world trade flows, however it is on a multilateral basis which does not deal with bilateral trade relationships. In these concern, I chose the NBER World Trade Flows dataset for the analysis.

<sup>6</sup> Division 26 indicates the items of textile fibers and their wastes including six, cotton, and other kinds of raw fibers.

patterns regardless of their contributions to the war coalition. Even if some states gain benefits in trade by joining in coalitions, a moderate increase in actual amounts of trade volume may not be a salient observation due to the largest trading partners. Thus, an observation of the state's share in the U.S. textile imports can indicate just how much trade benefits were provided by the United States.

## **B. Independent Variable**

Independent variable of this study is the difference in the commitments of potential partners during the Vietnam War. State behaviors were categorized into three groups. First, 'Non-participation' refers to most of the U.S. allies and like-minded states that did not participate in the coalition. During the given period, 32 countries were included in this group.<sup>7</sup> Next, 'Low Contribution' is comprised of those countries that contributed indirectly to the coalitions. The U.S. armed forces were staged and deployed in Japan and Taiwan so as to take advantage of their geographical advantages. Both states assisted the United States in the distance but did not deploy military forces.<sup>8</sup> Therefore, Japan and

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<sup>7</sup> To identify potential participants of the Vietnam War coalition, I refer to the Correlates of War (COW) Alliances dataset, which classifies alliance portfolios into four different ways; 'defense pact', 'neutrality and no aggression pact', 'entente' and 'no alliance'. I count every country except those who record 'no alliance' with the United States during the given period. Most of these 32 countries that are included in 'Non-participation' group were the U.S.'s core allies.

<sup>8</sup> Japan undertook civilian assistance on a few military projects but not on a broad basis. See 5 Foreign Relations of the United States, 1964–1968, Volume IV, Vietnam, 1966, eds.

Taiwan partly contributed to the coalition by acting as a rear base for war operations. The ‘High Contribution’ category consists of only five countries including South Korea, Thailand, Philippines, Australia, and New Zealand, all of which deployed their soldiers to South Vietnam and carried out missions as members of multi-national forces. Joining the war coalition by sending combat troops inevitably entails a great risk in that the soldiers of their own countries can be sacrificed. Thus I regarded that they made a full commitments to the coalition. I created dummy sets for each type of behavior in order to examine the effect of different levels of commitment on trade.

### **C. Control Variables**

The first control variable that I include in the study is the state’s textile trade pattern in the global market. Leading textile exporters worldwide are most likely to export a substantial amount of textile products to the United States since the U.S. was one of the largest textile markets in the world. I calculate the global market share in the same way as in the dependent variable. The NBER World Trade Flow dataset includes records of ‘world’ trade flow from both the perspective of the importer and the exporter. Thus, I divide an individual state’s textile export volume to world by the total sum of world textile import volume.

Also, political factors influence international trade patterns. A

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Ronald D. Landa and Charles S. Sampson (Washington: Government Printing Office, 1998), Document 309

similarity in political systems encourages bilateral connections. Thus pairs of states that share political structure have more trade than those that do not (Linder 1961, 17; Pollins 1989a; Dixon and Moon 1993, 11; Morrow et al. 1998). To measure the individual state's political similarity with the United States, I rely on the democracy score from the Polity IV dataset. The democracy score is obtained by subtracting a country's autocracy score from its democracy score. The score ranges from -10 (hereditary monarchy) to +10 (consolidated democracy), resulting in a regime authority spectrum. Since the regime type of the United States is invariably a consolidated democracy, I first calculate the democracy score difference between the two states by subtracting the individual state's score from the United States'. Then I subtract its absolute value from 10.<sup>9</sup>

Another control variable measures the similarity of alliance portfolios. Alliance portfolio measures the similarity of states' alliance interests and policies; states with similar alliance portfolios have strong alliance commitment which leads to having similar security interests, while states with dissimilar alliance portfolios have conflicting security interests (Signorino and Ritter 1999). The importance of alliances to the United States varies by state. It can be expected that a state that has identical alliance portfolios with the United States is likely to have a strong bilateral connection, leading to greater volume in trade

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<sup>9</sup>  $10 - |(USA - x_i)|$



flows. By using the weighted S score on global levels of Signorino and Ritter (1999),<sup>10</sup> I take into account a variety of alliance portfolios. The S score is assigned a value between -1 and +1, where -1 represents complete discordance in portfolios, +1 represents complete concordance in portfolios. Since this study only considers allies of the United States, the lowest score is still higher than 0.1.

Finally, it is widely recognized that a state's export capacity is related to its GDP and population. To include GDP into the model, I use GDP data from the Maddison project<sup>11</sup>. I used Maddison Database version 2010, which covers GDP from 1 to 2008 AD. It is expressed in million 1990 International Geary-Khamis dollars. The population indicates a country's domestic market size—the larger a country's population, the higher the capacity of the state in satisfying domestic demand with domestically produced products. In this case, there is a lower demand for imports. Hence, trade flows are inversely related to the population size (Mansfield and Bronson 1997, 97).

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<sup>10</sup> I use S score over Tau-b score for understanding alliance portfolio because tau-b is inappropriate to use as an indicator of the similarity of states' foreign policy positions. Tau-b reflects ordinal rankings of alliance portfolios, thus limiting to apprehend the spatial positions of the policy portfolios diverge between the two countries. This can be a problem for example, when state  $i$  and  $j$  have just discordant alliance portfolios, yet tau-b assumes that these countries have completely dissimilar alliance commitments (Signario and Ritter, 1999).

<sup>11</sup> For the GDP data, I rely on Maddison project, instead of using the World Bank database. The World Bank does not list Taiwan as a separate country, thereby data of Taiwan is added to the data for China. In this study, however, Taiwan is an important actor that partly participated in the Vietnam War coalition, so I chose the Maddison over the World Bank.

## **4.2 Time Period**

The time span of this research is 14 years from 1962 to 1975. After President Johnson asked for allies' cooperation in multinational military actions, only five states responded to this request and sent troops in 1964. The United States began to gradually withdraw its troops starting in 1970 and the direct U.S. military involvement ended in 1973 as the peace treaty was signed between the governments of the Democratic Republic of Vietnam (North Vietnam) and the Republic of Vietnam (South Vietnam) on January 27, 1973.<sup>12</sup> Foreign troops withdrew their soldiers in a similar manner. In general, the prospective war coalition participants can discuss the terms of their participation with the coalition leader in advance of the war. However, the actual payment of incentives by the coalition leader may take some time. Therefore, I observed the U.S.'s allies textile trade flows two years before and after the formation of the Vietnam war coalition.

## **4.3 Changes in Trade Flows**

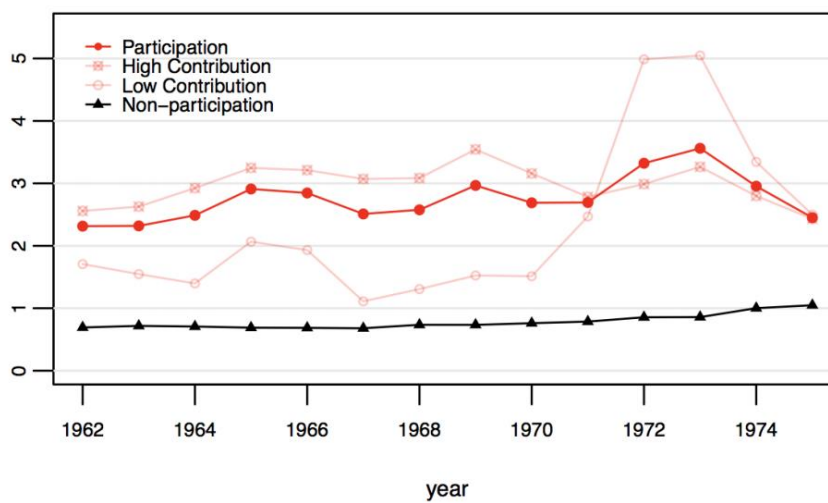
Figure 3 is a descriptive illustration which shows the variations in textile and apparel trade flows over time from 1962 to 1975 by degree of participation and contribution. I calculate the average of states' annual percentage of textile

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<sup>12</sup> The Paris Peace Accords is officially titled the Agreement on Ending the War and Restoring Peace in Vietnam.

exports to the United States by each group. Whereas there is a near absence of changes in trade flows for the group of Non-participant states, it is clearly observable that there is a salient increase in trade flows for participant states especially before and after 1964 when the requests and negotiations for deployment of troops in Vietnam began. More specifically, categorizing participant states according to their levels of contribution shows that those with high contributions to the coalition experienced an overall increase in trade flows. Although low contribution states undergo an increase in average percentage of exports post-1971, this descriptive flows of Figure 3 is still consistent with the hypothesis that states with higher contributions in a war coalition are more likely to be rewarded with trade benefits than non-participants.

**Figure 3.** Trade Flows and State Behaviors in the Vietnam War Coalition



## 4.4 Method

To test the hypothesis, I apply the system Generalized Method of Moments (GMM). This study includes unbalanced panel data on 39 countries over the period of 1962-1975. It has been criticized that pooled time-series cross-sectional estimation do not deal with unobserved differences across countries (Green et al. 2001, 442). If there is a contemporaneous correlation of individual- and time-specific effects and the explanatory variables, pooled Ordinary Least Squares (OLS) can generate biased estimation (Woodridge 2010, 307-314). Applying fixed effects estimation can address this problem.

However, one more concern that must be dealt with for this study is to capture dynamic effects of trade flows. Trade flows in time  $t$  are heavily determined by its past level in time  $t - 1$ . To address this, lagged dependent variables are included in the model. However, the strict exogeneity assumption never holds in unobserved effects models with lagged dependent variables (Woodridge 2010, 290). Due to the endogeneity problems, fixed effects estimators can also be biased and inconsistent in this dynamic panel data model. To produce a consistent parameter estimation, Arellano and Bond (1991) suggest the GMM methodology. The basic model of dynamic panel data between the dependent variable  $y_{it}$  and a single covariate  $x_{it}$  is

$$y_{it} = \alpha + \gamma y_{it-1} + \beta x_{it} + \mu_i + e_{it} \quad (i=1,\dots,N, \ t=1,\dots,T) \quad (1)$$

where  $\mu_i$  denotes unobserved time-invariant heterogeneity and  $e_{it}$  is the idiosyncratic error term. The GMM estimation method is based on the model of first differences in order to remove individual-specific effects in panel data models. The model can be expressed as below.

$$\Delta y_{it} = \gamma \Delta y_{it-1} + \beta \Delta x_{it} + \Delta e_{it} \quad (2)$$

However, as shown in Equation 2, there still remains a correlation between the first-differenced lagged dependent variable and the first-differenced error term as below,

$$\text{Cov}(\Delta y_{it-1}, \Delta e_{it}) = \text{Cov}(y_{it-1} - y_{it-2}, e_{it} - e_{it-1}) \neq 0 \quad (3)$$

Arellano and Bond suggest that the lagged values of the dependent variable could be valid instruments in the differenced equations. In this case,  $y_{it-2}$ ,  $y_{it-3}$ , ..., which is the lagged values of  $y_{it-1}$ , can be used as valid instrumental variables for  $\Delta y_{it-1}$ . This is the standard difference-GMM estimation.

Difference-GMM estimator, however, raises large finite sample bias and imprecision “when autoregressive parameter  $\gamma$  in the Equation 1 is moderately large and the number of time series observations is moderately small” (Blundell and Bond 1998, 115). In this case, lagged levels of dependent

variables are weak instruments for first differences. Later, Blundell and Bond (1998; 2000) propose the extended system GMM estimator, which provides more precise estimates by making up for the weak instrument problem of the difference-GMM estimator. System GMM obtains additional moment conditions and uses  $\Delta y_{it-1}$  as a instrument for  $y_{it-1}$ . I analyze the effects of states' contributions on trade flows by using the system GMM estimator.

Two different tests are required in order to find out whether the instruments have validity and whether the estimator is consistent. First, Sargan or Hansen tests can check the validity of the instruments. The over-identification problem indicates that there are more instruments than necessary to estimate the model. Hence, the null hypothesis, which indicates that over-identification restrictions are valid, should not be rejected so that using the instruments are determined to be appropriate. Another test is the Arellano-Bond autocorrelation test of the residuals. To confirm whether the estimates are consistent, model should have first-order autocorrelation but should have no evidence for second-order autocorrelation. The presence of second-order autocorrelation implies that the instruments are correlated with the error term. Therefore, in order to validate the use of System GMM, I need to reject the null hypothesis of AR1 test, affirming that there is a serial correlation, while fail to reject the null hypothesis of AR2 test.

## 4.5 Findings and Discussions

Table 1 presents a series of results which confirm that states' different behaviors in the Vietnam War coalition have statistically significant and large effect on textile trade flows. Column 1 and 2 of Table 1 both apply OLS estimation, but only the second column includes the lagged dependent variable in the model. While the results of the first OLS estimation display the strongest effects on trade flows, R-squared of the second OLS estimation shows that the current level of trade flows may be affected by its past level. Results using System GMM estimation of column 3 support this presumption as well.

Given the presence of all dummy variables leads to perfect multicollinearity, the coefficients for 'Low Contribution' and 'High Contribution' are measured relative to the reference category, 'Non-Participation'. Coefficients of these two categories both have higher values since states that participated in the coalition earn more benefits on trade flows than the default group. Also, states that contributed to the coalition at the highest level through the deployment of troops had higher import flows than states that indirectly contributed to the coalition. System GMM estimation gives proper results. First, the Sargan test does not reject the over-identifying restrictions at the conventional levels of significance. As expected, the Arellano-Bond test also confirms that there is first-order autocorrelation. It sug-

**Table 1.** Effects of Allies' Contribution on Trade Flows

	OLS	OLS	GMM
Textile <sub>(t-1)</sub>		0.835*** (0.026)	0.501*** (0.086)
<b>Low Contribution</b>	1.008*** (0.295)	0.237 (0.160)	0.580** (0.253)
<b>High Contribution</b>	1.780*** (0.227)	0.358*** (0.130)	0.763** (0.369)
Exports to World (Log)	0.332*** (0.036)	0.048** (0.022)	0.120** (0.053)
Political Similarity	0.023** (0.011)	0.003 (0.006)	0.013 (0.011)
Alliance Portfolio	-1.023* (0.620)	0.095 (0.336)	-0.042 (0.717)
GDP (Log)	0.830*** (0.118)	0.118* (0.067)	0.274* (0.159)
Population (Log)	-0.827*** (0.132)	-0.102 (0.075)	-0.256 (0.185)
Constant	1.844** (0.822)	-0.012 (0.456)	
R <sup>2</sup>	0.512	0.859	
Sargan test (p-value)			0.811
AR(1) (p-value)			0.006
AR(2) (p-value)			0.462
Number of countries	39	39	39
Number of observations	417	417	417

Notes: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

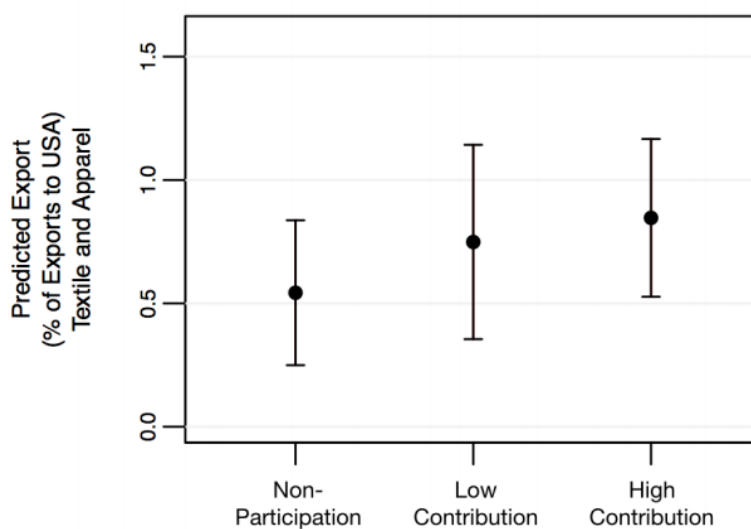
Results of system GMM are based on the two-step estimator. Standard errors of the System GMM are presented by the Windmeijer (2005)'s finite sample correction for the variance of linear two-step GMM estimators. System GMM estimation gives proper results. First, the Sargan test does not reject the over-identifying restrictions at the conventional levels of significance. As expected, the Arellano-Bond test also confirms that there is first-order autocorrelation while there is no evidence for significant second-order autocorrelation. It suggests that instruments are not correlated with the error term.



gests that instruments are not correlated with the error term.

Figure 4 illustrates the predicted effects of state behavior on trade flows by holding other variables at their means. The effect of state behavior is especially large when states show the highest levels of contribution. All these results indicate that different behavioral patterns of state in war coalitions meet correspondingly different effects on trade flows. That is, the United States rewarded its states proportionately according to the degree of cooperation in war.

**Figure 4.** Predicted Effects of Alliance Behavior on Trade Flows



## **Chapter 5**

# **Comparative Case Study of Textile Trade**

In this section, I examine the effects of state behavior in the war coalition on preferential trade benefits using a comparative case study. I compare the United States' decision-making process for trade policy with South Korea and Taiwan during the Vietnam War. South Korea was the highest contributing state in the coalition, and Taiwan made low and indirect contributions. Between the 1960s and the 1970s, South Korea and Taiwan shared some important parallels. Particularly, they had evolved very similar patterns in three categories: national capabilities, the relationship with the United States as the coalition leader, and the importance of the textile industry in domestic economic growth. However, there was a difference in their levels of contribution to the Vietnam War coalition, which led to the differences in textile trade benefits from the United States.

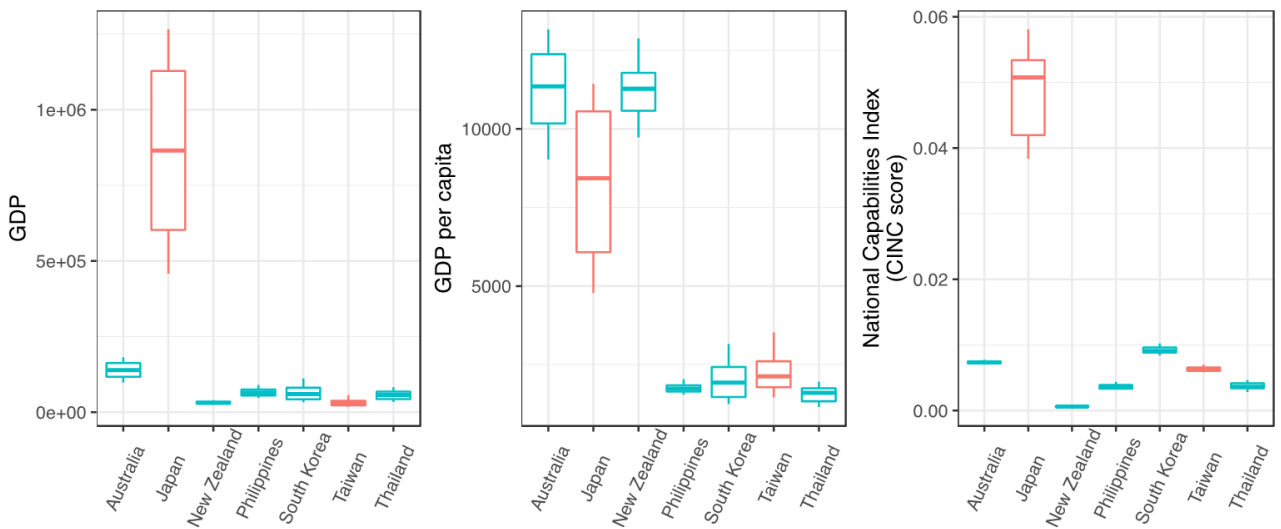
### **5.1 Similarities between South Korea and Taiwan**

#### **A. National Capability**

Among participants, South Korea and Taiwan were most similar in their levels

of economic development and national capabilities. According to the Maddison Project Database, the average gross domestic product (GDP) between 1962 to 1975 of South Korea was about \$64,000, and Taiwan was about \$32,000. While South Korea's GDP is more than 2 times of Taiwan, their average GDP per capita was similar; during the same period, South Korea's average GDP per capita was \$2,029 and Taiwan's was \$2,273.<sup>13</sup> Also, the National Material Capabilities data set from the Correlates of War Projects offers the Composite Index of National Capability (CINC) index of each country. This index is based on annual values for the total and urban population, iron and steel production, energy consumption, military personnel, and military expenditure. The average CINC score of South Korea was 0.009 and Taiwan was 0.006 in the given

**Figure 5.** National Capabilities of the Vietnam War Participants



<sup>13</sup> GDP and Real GDP per capita in million 1990 International Geary-Khamis dollars.

period. Figure 5 shows descriptive statistics, which graphically depict average GDP, GDP per capita, and CINC score of all participants between 1962 to 1975. Both economic and national capability indexes present South Korea from the ‘high contribution’ group and Taiwan from the ‘low contribution’ group as being very similar.

### **B. The Relationship with the United States**

South Korea and Taiwan were important to the United States in maintaining peace and stability in the Asia Pacific region. In the 1960s, the United States worried that communist aggression could take over the remaining regions of the Indochina peninsula. US foreign policymakers’ major concerns of a “Domino Effect” in the Far East were most heightened when they realized that they could lose South Vietnam and Laos. They assumed that the outcomes of South Vietnam and Laos would support the aggressive movement in the near Southeast Asian region, assisting a successive and speedy collapse of those neighboring countries. In the memorandum to the Director of Central Intelligence, John McCone, the member of the Board of National Estimates, Sherman Kent, emphasized that “the loss of South Vietnam and Laos would lead almost inevitably to the communization of other states in the area, and perhaps beyond the area”.<sup>14</sup>

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<sup>14</sup> Foreign Relations of the United States, 1961–1963, Volume I, Vietnam, 1964, eds.

A continuation of the spread of communism made both South Korea and Taiwan strategically important to the United States. This was because the United States had publicly and persistently committed to preventing the Communist takeover of South Vietnam and Laos to the free world. Losing these two places could be followed by a loss of prestige of the United States among free world allies. Also, it could debase the credibility of the United States' will and moreover, weaken the solidarity of several countries in the free world.<sup>15</sup> Foreign policymakers of the United States tried to anticipate which countries could possibly be disconcerted by a failure of the United States in South Vietnam and Laos and doubt the firmness of US commitments in the given area, thereby shifting toward a neutralist position.<sup>16</sup> In the situation where the cooperation between the US and the rest of the free world could potentially be destabilized, South Korea and Taiwan became essential for checking further Communist expansion in the Asia Pacific Region.

More specifically, South Korea played a prominent role in the U.S. security strategy for regional stability in East Asia and the Pacific area. South Korea and the United States had developed a military alliance after the Korean War and since then, the United States continued to serve as a guarantor of South Korea's national security. With Japan, the other pillar of the U.S.-Japan-

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Ronald D. Landa and Charles S. Sampson (Washington: Government Printing Office, 1992), Document 209

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

Korea security triangle, Korea undergirded East Asian defense throughout the Cold War era (Cha 1999; 2000, 262).

Taiwan carried out an important role in resisting the advance of Chinese communists with the United States. In 1949, Mao Zedong proclaimed the establishment of the new Chinese state, the People's Republic of China. The Communist uprising in mainland China triggered popular support for Communism in Myanmar, the Federation of Malaya and other places. Ever since China gained eventual Communist victory, Taiwan became one of the staunch allies of the United States for preventing Communist control of China. The mutual defense treaty of 1955 signed with the United States led Taiwan to embark upon active military roles such as a defense against direct mainland attack. Also, the United States army maintained military bases on Taiwan so that they could get Taiwan's defense assistance to the United States. US foreign policymakers assured that Taiwan would never seek to accommodate the Communists, and this belief continued to drive a strong US-Taiwan alliance.<sup>17</sup>

Regarding the US actions in the Vietnam War, Taiwan gave its continuing support from the beginning of the war. For example, during the Gulf of Tonkin incident on August 2, 1964, the United States tried to urge responsible military action to refrain from further armed attack in the United Nations Security Council. Supports from seven members of the Security

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<sup>17</sup> Ibid.

Council out of ten including France were as yet undetermined, but Taiwan made appropriate statements of support to the United States with UK and Bolivia.<sup>18</sup> Also, Taiwan revealed its preferences for extreme U.S. actions even including a risk of war with Communist China, which differentiates them from all other Asian countries.<sup>19</sup> Taiwan's role as a staunch ally to the United States continued until 1979 when the US formally established diplomatic relations with the People's Republic of China.

These facts indicate that both South Korea and Taiwan were valuable assets to the United States as anti-communist forces and as main supporters of the US position in the Far East.

### **C. The Importance of the Textile Industry in Domestic Economic Growth**

In the reconstruction period after the Korean War, the textile industry played a key role in the economic development of South Korea. At the end of the Korean War in 1953, most of the economic infrastructure and facilities were destroyed or damaged. To promote and rebuild economic stability, the South Korean government committed to postwar restoration projects with the assistance of foreign aid provided by the United States. The cotton textile and apparel industries were one of the main sectors in which the Korean government most

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<sup>18</sup> Foreign Relations of the United States, 1961–1963, Volume I, Vietnam, 1964, eds. Ronald D. Landa and Charles S. Sampson (Washington: Government Printing Office, 1992), Document 288

<sup>19</sup> Ibid., Document 209

actively invested in during this period. Soon after, the textile and apparel industries achieved explosive export expansion thanks to the stable foundations that were laid out so as to foster entry into the global market and active government-led investment.

In the 1960s and 1970s, the Korean government involved themselves in industrial undertakings by implementing export-based industrialization. Through the First (1962-1966) and Second (1967-1972) Five-Year development plan, the Park government placed emphasis on government-led, outward-oriented economic strategy. The Park government mainly invested in raw material-oriented industries such as agricultural sectors and light manufacturing enterprises which do not require high-tech production equipment. Therefore, the major export items of South Korea in this period consisted of either raw material such as textiles, garments, plywood, and food processing or simple manufactured items (Kim 1991, 5).

Textile exports accounted for only 10.8% of the total export in 1961, but it represented more than a two-fold increase in 1964, which indicated 27.5%. The textile industry held a 38.2 percent share in the total export by the end of 1967, and it approached almost 40% in 1969 (Lee, 113). Among various types of fabrics, natural fibers such as cotton, wool, and silk were most actively exported in the early periods. Until 1962, raw cotton for export was less than 10% of the overall cotton production in South Korea. Within two years, however, the



export volumes of cotton textile sharply increased to the point where half of the total national production was exported (Seo 2009, 157). Well into the mid-1960's, South Korea's exported textiles were expanded to include natural fibers and man-made fibers such as nylon and polyester. As a result of active government-led investment, the Korean textile industries spearheaded economic development in South Korea's postwar settlement.

Similarly, Taiwan also carried out an export-driven policy and the textile and apparel industries were their leading sectors as well (Cumings 1984, 1). Government-led economic development in the period between 1953 and 1964 provided a basis for significant growth of the cotton textile industry. For example, the Ministry of Economic Affairs established a special committee to carry out plans to expand the textile industry or give out tax incentives. As a result of the government's effort, the cotton textile enterprise developed into the biggest industry aside from the sugar processing industry since the 1960s (Mao and Schive 1995, 41-2). The number of cotton spindles began with 10,000, but soon afterward the industry was equipped with more than 500,000 spindles.<sup>20</sup> In 1962 and 1963, Taiwan's annual cotton output was nearly 300 million yards, but the domestic consumption was not even half the total output as the island is subtropical and there was a growing popularity of man-made fibers. A sizeable stockpile of cotton textiles was thus exported. Overseas textile sale in 1954 was

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<sup>20</sup> Taiwan Today, Retrieved from <https://taiwantoday.tw/news.php?unit=29,45&post=36829>, Publication Date: February 01, 1965.

\$336,000 in US dollars but it soared to 44 million dollars in 1963. Especially, the proportion of textile export to the total export was just 15% when the Vietnam War occurred, but it became 33.7% by the time the war was over (Baldwin and Nelson 1993, 9).

South Korea and Taiwan's economic achievements in such a short period of time are often labeled as 'economic miracles', and these countries are recognized as the 'Four Asian Tigers' along with Singapore and Hong Kong. Such similar historical patterns of economic growth were possible because Korea and Taiwan constructed government-led macroeconomic reform and industrial policy. Their economic strategies were primarily based on export-oriented development. Textiles had been the leading exports and a major source of foreign exchange earnings since the 1960s. Also, both had comparative advantages deriving from cheap labor costs in foreign marketplaces, for the textile and garment industries are labor intensive in nature. Therefore, the volume of exports increased sharply and Korea and Taiwan's economies became increasingly dependent on textile trade. Given that the United States was the largest source of Korean and Taiwanese textile and apparel imports, establishing a stable trade relationship with the United States in the textile products was extremely important to both governments especially between the 1960s and 1970s.

## **5.2 South Korea and Taiwan's Contribution to the Vietnam War Coalition**

Among six different participants of the Vietnam War, South Korea and Taiwan were the most similar cases in terms of their levels of economic development, national capabilities, the relationship with the United States during the Cold War, and the textile and apparel industry's standing in economic development. However, they contributed to the Vietnam War coalition in different ways.

### **A. Korea**

South Korea participated in the Vietnam War by sending combat troops. Korea's contribution to the coalition varied over time in size and characteristics of forces dispatched. Overall, South Korean forces were the second largest foreign military presence after the United States in Vietnam with a total of more than 300,000 military personnel. The first Korean units consisted of non-military brigade groups including medical teams and Taekwondo instructor units. In March 1965, the Korean government deployed additional support forces, known as the "Dove Force", to South Vietnam. Primary missions of this engineer brigade consisted of construction assistance. Until mid-1965, policymakers of the Johnson administration was reluctant to increase its military presence in Vietnam and thus attempted to avoid deploying ground troops into the guerilla war (Barrett 1988; Ma 2013). Accordingly, contributions

of the South Korean government was mainly confined to civilian operations during this period. Soon after, Johnson decided to escalate the war in Vietnam and increased its involvement because the situation in South Vietnam had worsened and the communist regime in North Vietnam showed no signs of waning.

Responding to the request for additional combat troops, the Korean government willingly responded with commitments to President Johnson.<sup>21</sup> In October 1965, South Korea entered into an active combat role in Vietnam. The Korean government decided to deploy an army division and a naval brigade to embark upon military missions in the frontline. Later in September 1966, Korea sent additional reinforcements comprised of one army division and regiment to back up the coalition. The numbers of troops from South Korea were much greater than any other coalition participants that had deployed combat troops. The Korean forces were the largest among participants and second only to the U.S. military force. As compared to the total population, South Korea had sent more troops in percentage than the U.S. had done.<sup>22</sup> There had been a gradual increase in the number of troops since the coalition was formed, and the number peaked in 1969. The size of the Korean army dispatched to South

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<sup>21</sup> Foreign Relations of the United States, 1964-1968, Volume XXIX, Part 1, Korea. eds. Karen L. Gatz and David S. Patterson (Washington: Government Printing Office, 2000), Document 5.

<sup>22</sup> Foreign Relations of the United States, 1969-1976, Volume XIX, Part 1, Korea., 1969-1972 eds. Daniel J. Lawler, Erin R. Mahan and Edward C. Keefer (Washington: Government Printing Office, 2009), Document 35.

Vietnam indicates that South Korea maintained the highest levels of contribution to support the U.S.-led military coalition even amongst other participatory states that had deployed combat troops to the frontline.

## **B. Taiwan**

Taiwan, as the western Pacific offshore defense perimeter, assisted the U.S. military force in Vietnam by providing one of the major support bases (Garver 2015: 126). Taiwan is geographically associated with Northern Vietnam so it kept expanding its military assistance to the United States primarily on air operations during the war. For instance, three squadrons of C-130 transport aircraft were redeployed from Clark Field in the Philippines and Okinawa to the Ching Chuan Kang (CCK) air base.<sup>23</sup> The C-130s entered service on one- to two-week cycles, then returned to the CCK air base for maintenance. Also, they assisted the movement of U.S. troops between South Vietnam and offshore U.S. bases located in other Asian countries (Garver 2015: 132). Four additional C-130s were deployed to the CCK airbase in 1972. Other military aircrafts stationed at the CCK air base provided procurement and logistical services or air refueling operations.

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<sup>23</sup> On May 11, 1972, Kenneth Rush, the Deputy Secretary of Defense proposed to add 2 more C-130 transport aircraft in Taiwan at the Washington Special Actions group meeting. He argued that these are for extra logistic support, transferring about thirty aircraft and about 800-1,000 personnel from the U.S. to Taiwan. See *Foreign Relations of the United States, 1969-1976, Volume VIII, Vietnam, January-October 1972* eds. John M. Carland and Edward C. Keefer (Washington: Government Printing Office, 2010), Document 146.

Moreover, the United States required third-country military engineering aid during the war. Taiwan provided the primary offshore repair and maintenance network because of its advantageous geographical location. The U.S. military forces in South Vietnam repaired and rebuilt heavy military gears and vehicles such as army trucks, jeeps, electrical generators, armored personnel carriers, and trucks in Taiwan because they could obtain lower transport costs if these heavy equipment were transported to Taiwan. Also, Taiwan assisted the United States by offering military engineers for repairing bridges on the lines of communications when they were damaged by the flood.<sup>24</sup>

Once, Taiwan also considered sending troops to South Vietnam. Chiang Kai-shek, the former President of Taiwan suggested to Admiral Jerauld Wright, the Ambassador to the Republic of China, and Harry D. Felt, the commander in chief of Pacific Command, that Taiwan could offer further contributions by sending armed forces to North Vietnam (Larsen and Collins 1985, 115). Policymakers of the United States partially agreed that deploying Taiwanese ground troops to South Vietnam seemed a desirable option from a military point of view. At the same time, however, they worried that this move would cause turbulence in the international system because Taiwan's active

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<sup>24</sup> Foreign Relations of the United States, 1961–1963, Volume I, Vietnam, 1964, eds. Ronald D. Landa and Charles S. Sampson (Washington: Government Printing Office, 1992), Document 410

military role in South Vietnam could be seen as a prelude to another war with Communist China (ibid, 116-7).<sup>25</sup> As the Taiwanese government publicly expressed that their enemy was Communist China more than North Vietnam, the United States was wary of Taiwan's military involvement in the Vietnam War. Eventually, the United States had paid a great sense of attention to China's intervention in the Vietnam War as they did in the Korean War, and thus did not approve the expanded role of Taiwan. Therefore, Taiwan's contribution to the Vietnam War coalition ended up supporting military operations from the rear.

While South Korea gave its full commitments, Taiwan was indirectly involved in the war in a supporting role, avoiding the risk of injury or death of their soldiers. Given the costs and risks involved in deploying combat troops, we can conclude that Korea was more committed to the coalition than Taiwan was.

### **5.3 Textile Trade Relationships between the United States and Korea versus Taiwan**

The United States, as a coalition leader, is more likely to reward more cooperative partners with trade benefits. In this case, there would be a more significant increase in textile trade flows among war coalition participants

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<sup>25</sup> Foreign Relations of the United States, 1964–1968, Volume V, Vietnam, 1967, eds. Kent Sieg and David S. Patterson (Washington: Government Printing Office, 2002), Document 159.

showing high-contributions than participants showing low-contributions or non-participants during the given period. In order to examine the effects of alliance behaviors in the war coalition on bilateral trade relationships, I compare foreign policymaking process in regards to trade negotiations between the United States and two participants with different levels of contribution: South Korea and Taiwan. I mainly refer to the Foreign Relations of the United States (FRUS), which records major U.S. foreign policy decisions, and some official trade agreements. The main purpose of the archival research is to observe whether there were negotiations for trade benefits—either in the form of increasing quotas on textile exports or removing a restriction on import of textiles— and whether the United States deliberately attempted to reward favors in trade.

This case study covers the period from 1964 to the late 1960's, which is shorter than the time span of the statistical analysis in the previous section. Since it takes time for the coalition leader to complete the payment, the statistical analysis includes an extended period of time in which it is assumed that coalition partners received the full side-payment. Case studies, on the other hand, focus on whether there were solid negotiations between a coalition leader and prospective participants about the side-payment, thereby granting great favors to the coalition partners. Since the United States requested additional troops until 1966 and started to gradually withdraw its ground forces since



1970, it can be assumed that negotiations for profit would primarily be focused in the mid to late 1960's. The following will attempt to explain how South Korea and Taiwan proceeded with textile trade negotiations and consequently identify what kinds of preferential trade benefits were earned from the United States.

### **A. Korea**

Historical documents show that the United States and the South Korean government discussed the provision of trade benefits in the form of textile products. Right before the Korean government sent its first troops to Vietnam, Dean Rusk, the Secretary of State of the United States visited South Korea in order to investigate the priority agendas of the Korean government and to find mutual interests. The Korean government presented its views and positions on priority agendas to Rusk including how the United States could support Korean's economic stabilization and development plan. Specifically, the Korean government requested of the United States to take into immediate and favorable consideration seven different points, but specifically focused on the trade issue as can be seen below;<sup>26</sup>

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<sup>26</sup> Foreign Relations of the United States, 1964-1968, Volume XXIX, Part 1, Korea. eds. Karen L. Gatz and David S. Patterson (Washington: Government Printing Office, 2000), Document 3.

“the overall trade and commercial policy toward Korea should be re-examined in more favorable terms and the restriction imposed on the quota for the Korean textile goods should be relaxed.”

Similarly, the president of South Korea, Park Chung-hee, asked for favorable conditions for Korean imports in a conversation with the U.S. Secretary of State. Although president Park did not directly refer to specific products, foreign policymakers of the United States conjectured that the Korean government yearned for better deals on textile quotas.<sup>27</sup> Korea’s requests were realized after they sent their first deployment of troops to South Vietnam. In the president’s cabinet textile advisory committee meeting of January 14, 1965, James Love, the Deputy to the Secretary of Commerce, stated that “the United States had negotiated an agreement with Korea on terms which are more generous than those for any other country”.<sup>28</sup>

The statement of Love is well reflected in the ‘Trade in Cotton Textile’ agreement signed between South Korea and the United States on January 26, 1965. This agreement dealt with “re-examining the overall US trade and commercial policy on Korea towards more favorable terms and relaxing the

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<sup>27</sup> Korean government specifically requested that the restriction imposed on the quota for the 16 Korean textile goods should be relaxed. Ibid.

<sup>28</sup> Department of Commerce, 1/14/1965, President’s Cabinet Textile Advisory Committee meeting (Retrieved from U.S. Declassified Documents Online, <http://tinyurl.galegroup.com/tinyurl/9tvN31>.)

restriction imposed on the quota for Korean textile goods”.<sup>29</sup> Aside from the extended quotas on cotton textiles, the overall ceiling for other textile articles such as wool and man-made fibers were also increased. The total level of restrained and unrestrained trade increased from 16 million square yards to 26 million after the negotiation.<sup>30</sup> Since the GATT Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) lasted for 5 years beginning in 1962, most Asian countries were supposed to renegotiate on exports of textile products with the United States in 1967. However, Korea was able to attain trade benefits on textile and apparel even before 1967.

Trade negotiations on textile agreements further continued as the Korean government actively joined U.S. combat operations by deploying ground combat forces and increasing its troops level. In return for providing a full combat division plus a non-combat engineering unit to Vietnam around June 1965, foreign policymakers of the United States discussed ways to give some tangible trade benefits to Korea for its active response to US request for troops<sup>31</sup>. Because the American public’s support for the Vietnam War decreased as the war continued, the U.S. government required additional assistance from

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<sup>29</sup> Department of State, 1965, Trade in Cotton Textile, U.S.-ROK., Jan. 26, 1965, Treaties and other 17 international acts series (TIAS) 5751

<sup>30</sup> Department of Commerce, 1/14/1965, President’s Cabinet Textile Advisory Committee meeting

<sup>31</sup> Foreign Relations of the United States, 1964-1968, Volume XXIX, Part 1, Korea. eds. Karen L. Gatz and David S. Patterson (Washington: Government Printing Office, 2000), Document 59.

their foreign coalition partners within six months.<sup>32</sup> On December 16, 1965, Winthrop G. Brown, the U.S. Ambassador to South Korea gave a full exposition on the Vietnam War situation and delivered a message requesting additional troop contributions from South Korea. Six days later, President Park agreed that Korea should send additional troops to South Vietnam and South Korea's fourth deployment of troops was privately agreed upon.<sup>3334</sup> After the decision for additional deployment, ongoing textiles negotiations gained more specificity.

First, according to a letter from the embassy in Korea to the U.S. Department of State, Ambassador Brown specifically made the following statement on December 28, 1965.<sup>35</sup>

“There are many ways in which we can make our formative influence helpful [to Korea]. ... If for example, over the next few weeks and months there should be a series of favorable procurement

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<sup>32</sup> Ibid., Document 61.

<sup>33</sup> President Park did not want to face unnecessarily political and public opposition to the escalation of Korea's military role in Vietnam. See Ibid., Document 72; Ibid., Document 103.

<sup>34</sup> After the decision for sending additional combat troops, South Korea urged the U.S. government to fulfill the promise. As the result of the negotiation, they reached to the “Brown memorandum”. This five-page document contains a pledge of support for military modernization and economic development. The memorandum centered on giving 15 million dollar loan for South Korea's economic development, so there was little mention of trade benefits as economic side-payment.

<sup>35</sup> Foreign Relations of the United States, 1964-1968, Volume XXIX, Part 1, Korea. eds. Karen L. Gatz and David S. Patterson (Washington: Government Printing Office, 2000), Document 66.

actions for South Vietnam, ... , or a better textile quota, ... , the psychological effect here would be very constructive.”

This suggestion indicates that foreign policymakers of the United States kept offering textile trade benefits in exchange for an additional deployment of troops from South Korea.

Also, Korea made a list, entitled the ‘Economic and Financial Supports Suggested for Review by USG [the United States Government]’ which includes the items that South Korea requested from the United States for its contribution to the Vietnam War. Among 10 items regarding various kinds of economic support, the South Korean government specifically mentioned “Encouragement Korean exports to the U.S. and Lift U.S. quota on Korean textiles”, demanding better deals on Korean textile quotas.<sup>36</sup> Policymakers of the United States considered the requested items as unrealistic since they failed to meet the basic assistance criteria including financial capacity, or statutory and policy limitations. They considered the list unrealistic and unreasonable. For example, in a conversation with President Johnson, Robert McNamara, the Secretary of Defense of the United States, described that “Koreans want about \$600-700 million worth of cumshaw for the additional troops”. However, there was a good chance that such reactions were mostly based on the Korean’s demands on

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<sup>36</sup> Ibid., Document 71.

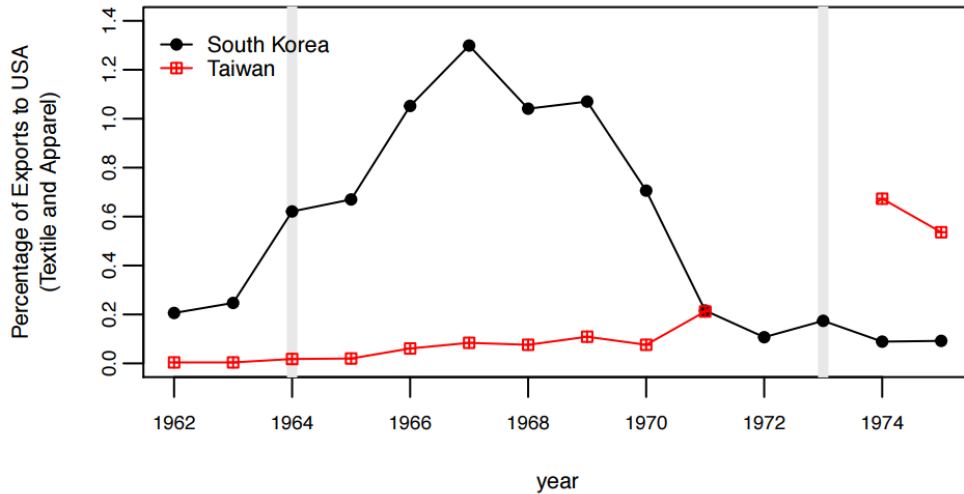
other items such as development loans or military assistance programs instead of its wishes on trade benefits<sup>37</sup> because Korea anyway received the higher textile quotas in the 1967 bilateral textile agreement than before.

Figure 6 shows the variation in the percentage of textile exports of South Korea and Taiwan to the United States during the period from 1962 to 1975. The Korean government sent its foreign troops in June 1964, which led to an 8% increase in the percentage of textile exports to the U.S. from 1964 to 1965. In January 1965, Korea sent its second non-combat troops to support civilian operations in South Vietnam. Five months later, the first Korean combat forces were deployed to assume a more direct combat role in the Vietnam War. Both, and especially the latter contribution brought an explosive increase in Korean exports of textile and apparel products to the United States between 1965 and 1966. While the percentage of exports to the United States in 1965 was only 0.67%, it increased by about 57% in 1965, reaching 1.05%. Additional Korean forces were deployed to South Vietnam during 1966 and due to this further troop contribution, exports of Korean textiles to the US had continued its upward movement until 1967, and the percentage reached its highest point, 1.3%. By the time the South Korean government completed its last deployment, the percentage of Korean textile exports to the USA had almost doubled since South Korea joined the Vietnam War coalition. The perce-

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<sup>37</sup> Ibid.

**Figure 6.** Variations in the Percentage of Textile Exports of South Korea and Taiwan



ntage went down between 1967 and 1968, but Korea maintained the increase in its proportion of textile exports to the USA until 1969.

There is a sharp decrease in percentage after 1969 and soon it returns to the same level as pre-1964. It is partly because the United States changed its trade policy in the textile and apparel industry from the 1970s. As a great volume of imported textiles and apparels were being brought into the country, there was a growing protectionist sentiment in textile industries and in the Congress (Baldwin et al 1995, 122). They pressured government efforts to examine the textile situation in the domestic market by the late 1960s. In an attempt to relieve influential opposition voices, President Nixon assured prompt action to limit the import of certain textiles and extend the concept of

international trade agreements to all other textile articles.<sup>38</sup> As a result of the textile agreement in 1971, most of the main textile importers including South Korea had to voluntarily impose a gradual restriction on their textile quotas. At a similar time, there was a structural change in the Korean economy; the government undertook an expansion of the heavy chemical industry. Light industries such as textile and food processing that had led the export boom throughout the 1960s were replaced by heavy machinery and chemical products (Kim 1991: 6-9). For these reasons, the continuous decrease in the percentage of Korean textile exports to the USA beginning in the early 1970s is less likely to have been relevant to Korea's behavior in the Vietnam War.

The export of South Korean textiles to the US displays an identical pattern with South Korea's decision to deploy troops in Vietnam and the size and nature of their armed forces. Korean's decision to deploy troops allowed for considerable growth in the percentage of Korean textile exports to the United States. Therefore, the fact that South Korea was the highest contributor to the Vietnam War coalition affected the trade relationship with the United States in textiles and apparel.

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<sup>38</sup> Foreign Relations of the United States, 1969-1976, Volume IV, Foreign Assistance, International Development, Trade Policies, 1969-1872. eds. Bruce F. Duncombe and David S. Patterson (Washington: Government Printing Office, 2001), Document 184; Document 249.



## **B. Taiwan**

There was little exchange between Taiwan and the US regarding textile trade. However, it is worth scrutinizing documents that were written by US foreign policymakers on December 8th 1969. In December 1969, Spiro Agnew, the Vice President of the United States was given the opportunity for a discussion with President Chiang Kai-shek during his Asian tour. The document suggests some important agendas that President Chiang or other members of his government were expected to raise. Also, there are recommended answers to these expected agendas that were prepared for Vice President Agnew. The document includes various topics such as U.S. initiatives toward Communist China, U.S. military assistance to Taiwan's air defense, or the continued U.S. defense commitment to Taiwan, including textile negotiations between Taiwan and the United States.

According to the document, foreign policymakers of the United States already knew that "the Chinese [Taiwanese] will probably emphasize the importance of the textile industry and its continued growth to the economic health and growth of the Republic of China, and seek generous treatment from the US in the current negotiations".<sup>39</sup> Agnew was instructed to avoid entering into a technical discussion about textile issues if they were to bring up the

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<sup>39</sup> Department of State, 8/12/1969, Vice President Spiro Agnew is provided talking points for his discussions with Taiwanese President Chiang Kai-shek. (Retrieved from U.S. Declassified Documents Online, <http://tinyurl.galegroup.com/tinyurl/9ttPH6>.)

subject. In US manufacturing, the textile and apparel industry was the largest employer and gave jobs to relatively unskilled labor or members of disadvantaged groups.<sup>40</sup> Thus, Agnew was briefed to decline any favor on textile negotiations by citing the high unemployment rate of the United States. This document shows that the United States had already predetermined a fixed response on textile issues regardless of Taiwan's demands.

The actual discussion between US Vice President Agnew and Taiwanese President Chiang was not recorded in the FRUS, so it is rather difficult to understand the details. However, the two action memorandums written after the meeting do not include any mention of favorable treatment on Taiwanese export issues. The memorandums suggest the proposed gestures to Taiwan as assurances of U.S. support. As a commitment, the U.S. government promised only to further support Taiwan's technical agricultural assistance program<sup>41</sup> and to upgrade Taiwan's air defense capability through the provision of military aircraft<sup>42</sup>. Neither of the memorandums includes the United States' specific commitment to Taiwan on textile issues. Instead, Vice President Agnew planned to ask Taiwan to establish quota controls on man-

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<sup>40</sup> Ibid.

<sup>41</sup> Foreign Relations of the United States, 1969-1976, Volume XVII, China, 1969-1972. eds. Steven E. Phillips and Edward C. Keefer (Washington: Government Printing Office, 2006), Document 57.

<sup>42</sup> Foreign Relations of the United States, 1969-1976, Volume XVII, China, 1969-1972. eds. Steven E. Phillips and Edward C. Keefer (Washington: Government Printing Office, 2006), Document 58.

made fiber and wool textile products exported to the United States in the meeting with President Chiang. Taiwan's request for generous deals on textile quotas was not accepted. It is important to note that Vice President Agnew reminded the Taiwanese government that "the recipient country was not in a position to make a decision as to precisely what type of material the US would provide".<sup>43</sup>

Figure 6 shows that the percentage of Taiwan's textile exports to the United States slightly increased during the Vietnam War period, especially between 1963 to the early 1970s when the U.S. started to gradually withdraw its soldiers. Taiwan's graph is in stark contrast to that of South Korea which represents a steep increase as their contribution to the coalition expands. Even though Taiwan participated in the Vietnam War coalition and offered rear support to U.S. forces and foreign troops, its contribution did not lead to an export expansion in textile and apparel products as in the case of South Korea. Foreign policymakers of the United States knew that for Taiwan, it was critical to secure as many textile quotas as possible because the textile industry constituted one of Taiwan's largest manufacturing industries.<sup>44</sup>

However, it is not just that the United States gave minimal trade

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<sup>43</sup> Ibid.

<sup>44</sup> Department of State, 8/12/1969, Vice President Spiro Agnew is provided with background information about the status of U.S.-Taiwanese textile negotiations in preparation for his upcoming visit to Taiwan. (Retrieved from U.S. Declassified Documents Online, <http://tinyurl.galegroup.com/tinyurl/9ttP28>.)

benefits to Taiwan, but there are not many discussions on trade benefits as economic side-payments between Taiwan and the United States to begin with. This is because textile negotiations with Taiwan were part of a non-decision making process to the United States. Bachrach and Baratz (1962; 1963) define that non-decision making is to prevent certain issues from developing into the actual decision making process which carefully considers plans of actions and makes the decision. The dynamics of non-decision making does not necessarily require actual disagreement in preferences among foreign policymakers. Instead, there is a possibility that they were not interested in the issues and decide not to participate in the decision making process. Thus, nondecision is an academically important concept and it is subject to observation and analysis though it is barely observable (Bachrach and Baratz 1962, 641). From the concept of non-decision making process, it can be assumed that US foreign policymakers were intuitively indifferent to Taiwan's textile issues, limiting actual decision making to non-controversial matters.

One interesting point in Figure 6 is that Taiwan's overall percentages of textile exports to the United States started to grow after 1970. Although observations of Taiwanese textile trade flows for 1972 and 1973 are missing in the World Trade Flows dataset, it can be assumed that the amounts of textile exports of Taiwan to the United States expanded in the early 1970s and became two times bigger than that of South Korea in 1974. This rising import textile

flows from Taiwan to the United States in the early 1970s may have little to do with an impact of the Vietnam War, because the U.S.'s request for coalition joining to its allies was most active in the early 1960s and the coalition started to disband as the U.S. withdrew its soldiers in 1970. Instead of preferential trade concessions from the United States in favor of Taiwan's contribution in Vietnam, the increases in the percentage of textile exports seem to be associated with Taiwan's rapid economic development in the 1970s, especially with the growth of light manufacturing enterprises.

## **5.4 Findings and Discussions**

South Korea and Taiwan responded differently to the United States' request to help and support the military defense of South Vietnam. While the South Korean government sent the largest number of foreign troops to the Vietnam War coalition second only to the United States, the coalition leader, the Taiwanese government supported the coalition forces from the rear. Their different levels of contribution to the coalition had an impact on bilateral trade relationships with the United States.

During the 1960s, the economic growth of both South Korea and Taiwan's was largely based on export-oriented industrialization, and textiles were one of their leading exports. Governments of the two countries were attempting to raise the quota ceiling for textile and apparel products as a reward

for their contributions in the Vietnam War coalition. While textile negotiations between South Korea and the United States had been discussed continuously and produced favorable conditions to improve the Korean textile industry's export performance, negotiations between Taiwan and the United States were processed as non-decision making agenda and treated as a marginal issue.

The contrasting contributions of South Korea and Taiwan to the war coalition affected the trade relationship between them and the United States, the coalition leader. These opposite results between South Korea and Taiwan support the hypothesis, indicating that the coalition leader discriminates in favor of supportive and cooperative states in war coalitions by providing them with more trade benefits.

## **Chapter 6**

# **Conclusion and Future Directions**

### **6.1 Key Findings**

Security studies have long been interested in illuminating the ties between economics and security. As a result of focusing on the security externality of military alliances, much of the literature thus far has been preoccupied with the difference in bilateral trade relationship between allies and non-allies. My argument differs from previous studies on the trade-security nexus in that this research has centered on how trade patterns change within the alliance according to their behavior. The research trend proposed here can be potentially more interesting when considering the fact that allies' behaviors are highly unpredictable. It is difficult to assume that allies will always be cooperative and strongly committed to other ally partners. As such, there is somewhat of a difficulty in uniformly categorizing the varying behaviors of alliances as the previous research has centered on.

In order to examine how trade changes according to different behaviors of its allies, this study observe the case of the Vietnam War coalition in which there were clearly varying behaviors amongst the alliances, and in which the coalition leader most actively employed trade policy. Both empirical

findings through statistical methods and comparative case study suggest that different behavioral responses to the Vietnam War by the U.S.'s allies, as in the varying degrees of participation and levels of contribution, led to proportionately different changes in textile trade volume. Dynamic panel data analysis using system GMM shows that states with the highest level of contributions that send their military forces to the coalition earn higher trade benefits on textile flows from the coalition leader than do states with limited or no contributions.

Next, I analyzed the textile trade negotiations between the U.S. and South Korea and between the U.S. and Taiwan. The highest contribution of the South Korean government to the Vietnam War coalition weighed in their own favor during the textile negotiation with the United States, which results in an increase in textile quotas in favor of sending military forces to South Vietnam. On the contrary, the limited efforts to the coalition forces of the Taiwanese government as a rear base did not raise their bargaining position in textile trade negotiation with the United States and their request for better deals on textile quotas were not accepted. The conclusion is that alliance behavior had a pronounced effect on import flows.

These findings suggest implications for both actors in the bilateral trade relationship. First, it allows for the importer as the coalition leader to comprehend how to strategically utilize trade as a means to foster future



contributions from its allies. The coalition leader prefers high levels of participation and contribution from allies in order to partially reduce the costs and to politically justify its decision to wage war. Based on this result, the coalition leader can promote participation and contribution in the future event by discriminately handing out trade benefits to potential participants. Therefore, this strategy aids the formation of the coalition and also builds coalition durability.

Moreover, the findings can serve as guidelines for behavior to alliance partners as well. Many studies have revealed that states join the war coalition in which they have little or no stake to pursue economic benefits. Yet, there is a lot of pressure for allies to participate in war coalitions. States may face strong public opposition, being accused of sacrificing their own soldiers as a means of foreign currency earning. Or, they have trouble sending troops simply due to their lack of military capabilities. Likewise, states have to shoulder tremendous physical constraints and cost. The findings of this study suggest that states can measure whether their decision for sending troops is well worth the effort and expense despite the cost. Especially, it can provide directions for those weak and developing countries whose economies rely heavily on trade with the coalition leader.

## 6.2 Future Directions

In the future, this research can also be expanded. This study focuses on the Vietnam War under the special circumstances of the Cold War. However, it is reasonable to ask what this research concern would look like in a period other than the Cold War. War Coalitions in the post-Vietnam era are outside of the frame of ideological conflicts during the Cold War. Instead, the frame has taken various different forms such as humanitarian purposes, counterterrorism and non-proliferation of weapons of mass destruction. As such, there is not only the continuing participation and contribution by allies, but by non-allies as well due to the more inclusive and comprehensive nature of new global problems. Such actions by non-allies fall under the shaded area in group 4 from Figure 2. Thus, the key question is: with which priority does the U.S. provide trade benefits to the four groups? It is predictable that those states that are members of the alliance and also actively contribute most likely receive the most benefits, and those states that are not alliance nor contribute to the coalition experience little change or a decrease in trade flows. However, it is difficult to intuitively answer the same question for groups 2 and 4. In this case, both the ally/non-ally status and the differences in state behavior must be comprehensively accounted for. Future research may further address this research question.

Also, future research can address whether there is a ‘paradox of rewards’. In Figure 6, we observe that Korea earned textile trade benefits from

the United States in favor of its notable commitments in the coalition while Taiwan received little to almost no support from the United States, even though the importance of textiles to these two countries' economies and exports were both overwhelming. However, after the U.S. government started to withdraw troops from Vietnam, the amounts of Korean textile exports to the United States went through a rapid decline. On the contrary, the variation in Taiwan's textile trade pattern began to increase even after the coalition disbanded and the war was over. This interesting disparity may imply that giving preferential trade benefits to the developing countries may not be helpful to their long-run economic growth. The Korean textile industries could expand as they received a big favor from the U.S. government during the Vietnam War, but they failed to keep up with the upward trend after the United States lost its great stake in Vietnam. It indicates that various types of positive trade benefits such as giving subsidies or lowering tariffs as a tool to secure more contributions and commitments from allies may raise the economic dependency of the recipients, thereby paradoxically hindering the sustainability of their growth.

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## 국문초록

국제 무역을 설명함에 있어서 기존 연구들은 상대국이 동맹국인지 아닌지의 여부에 주목해왔다. 적대국은 무역으로 인해 발생하게 되는 경제적 혜택을 군사력을 증강시키는데 이용할 수 있는 반면, 동일한 조건에서 동맹국의 국력 및 군사력 증강은 동맹 전체의 이익이 될 수 있기 때문이다. 그러나 적-친구의 이분법적 구분에서 벗어날 경우 정치와 안보 요인은 국제 무역 관계에 어떤 영향을 미칠까? 본 연구는 부정적인 무역안보 외부효과가 적용되지 않는 동맹 내부의 무역 관계에서는 ‘동맹’이라는 상대적인 지위보다 동맹국이 무역 상대국에게 얼마나 협조적이었는가의 여부가 더 중요한 영향을 미친다는 점을 지적한다.

본 연구는 전쟁 연합에 주목해 동맹 내부의 무역 관계를 심층적으로 다룬다. 전쟁 연합에서의 책임 분담은 국력 수준에 따라 다르게 배분된다. 전쟁 연합에서 강대국에 비용 분담이 편향되어 나타나는 까닭은 강대국이 해당 전쟁에 대해 많은 이권을 개입하고 있으며, 동시에 전쟁에 참여할 수 있는 많은 역량을 보유하고 있기 때문이다. 반면, 전쟁의 당사국이 아닌 국가들은 집단 공동의 이익을 달성하기 위해 자국의 희생을 감수하려고 하지 않는다. 강대국을 제외한 다른 국가들은 집단행동에서 발생하는 책임과 분담을 회피함으로써 강대국에 무임승차할 수 있다.

그러나 일부 국가들은 전쟁 연합에 참여함으로써 연합군의 일원으로 참여하지 않은 국가들과 서로 다른 행동 양상을 보인다. 또한 동일하게 전쟁 연합의 참여를 결정하였더라도 국가들은 서로 다른 수준으로 연합에 기여한다. 이처럼 동일 전쟁 내에서도 국가들의 참여 여부가 달라지며, 참여를 결정한 국가들도 전쟁 연합에 제공하는 기여의 수준과 규모가 상이하다는 점을 나타낸다. 전쟁 연합에 대한 국가들의 서로 다른 수준의 기여도는 전쟁 연합을 주도하는 국가로부터 차별적인 무역 혜택을 야기한다.

보다 구체적으로 본 연구는 베트남전의 사례를 통해 동맹국들의 차별적인 행동 양상과 미국과의 무역 관계 간에 어떠한 연관성이 있는지를 분석한다. 당시 미국이 제공한 차별적인 무역 혜택으로는 1960년대에서 1970년대 사이 미국 동맹국들의 대표적인 대미 수출품목 중 하나인 섬유산업을 살펴보았다. 가설을 검증하기 위해 본 연구는 통계분석방법론과 사례 연구를 접목시켰다. 우선, 동태적 패널 데이터 분석방법인 시스템 일반화적률법을 이용해 베트남 전쟁 연합에 대한 동맹국들의 기여도에 따라 그들이 미국으로부터 제공받는 섬유 수출량이 어떻게 변화해나가는지를 살펴보았다. 심화적으로 본 연구는 당시 경제 성장 정도와 국력 수준, 미국과의 군사적 관계, 그리고 섬유 산업이 당시 국가의 경제 성장에 미치는 영향 등을 고려하여 가장 유사한 특성을 지니고 있는 한

국과 대만을 비교하였다. 파병과 동맹국들의 기여도에 대한 논의가 활발하게 진행되었던 기간 동안 한국과 미국, 그리고 대만과 미국 사이에 파병에 대한 대가로서 섬유 산업 수출에 대한 무역의 혜택이 있었는지를 살펴보았다.

두 실증분석은 모두 전쟁 연합에 더 높은 수준으로 기여한 국가일수록 전쟁 연합 주도국인 미국으로부터 더 많은 섬유 수출량과 섬유 쿼터를 배정받았음을 나타낸다. 이러한 연구 결과는 국가가 단순히 동맹-비동맹의 구분에 따라 무역 관계를 형성해나가는데 그치지 않고, 동맹국의 행동 변화를 유도하고 이를 평가함에 있어 무역을 적극적인 외교정책 수단으로 사용한다는 점을 밝힌다.

**주요어:** 전쟁 연합, 동맹국의 차별적인 행동 양상, 양자무역관계, 섬유 무역 협상, 동적패널분석, 시스템 일반화 적률법

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